

Michigan Business Tax

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House Tax Policy Committee
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Governor's Criteria for Reform

- ✓ Broaden tax base and lower tax rate
- ✓ Foster competitive pro business tax climate to encourage growth in 21st Century Industries
- ✓ Do not raise taxes on individuals
- ✓ Protect healthcare, education, and public safety
- ✓ Simplify business taxes
- ✓ Increase reliance on profits
- ✓ Eliminate tax on compensation – including healthcare
- ✓ Provide personal property tax relief
- ✓ Incorporate \$600 million in business tax cuts signed into law by Governor Granholm in December 2005

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New Tax Fixes Problems with Current Business Taxes

- ✓ High personal property tax burden discourages investment in Michigan
- ✓ SBT riddled with special provisions
- ✓ SBT not sensitive enough to profits
- ✓ SBT taxes labor and benefits such as healthcare
- ✓ \$350,000 filing threshold creates unfair cliff

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Michigan Business Tax

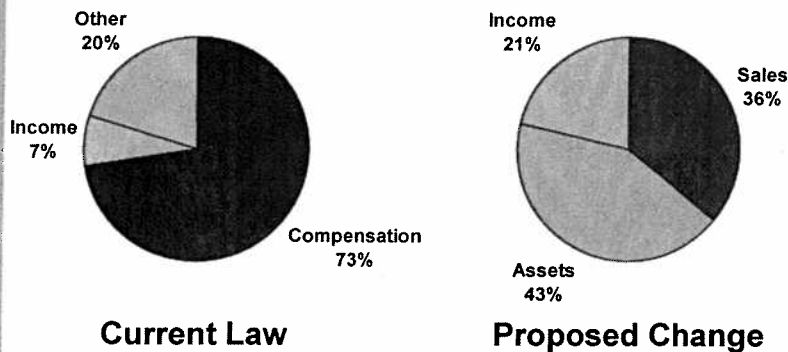
- Tax Base consists of sales, assets, and income
- Broad base allows for rate of 0.125 percent on sales and assets – the lowest rate in the country!
- Tax rate on profit just 1.875 percent
- Tax rate on profits well below any other state's corporate income tax rate¹
- Broad base distributes tax fairly across economy and minimizes economic distortions
- Includes special features for small businesses
- Provides personal property tax relief
- \$150 million net tax cut for Michigan businesses

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1. Alaska and Arkansas have corporate rates that start at 1 percent but have substantially higher top corporate rates.

Eliminate Payroll From Base Increase Reliance on Profits

Components of Tax Base



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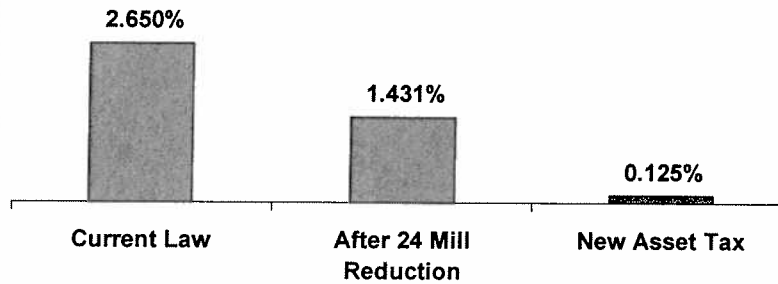
Source Current Law: Exhibit 13, *Michigan Single Business Tax 2000-01*, Michigan Department of Treasury

Personal Property Tax Relief

- Commercial and Industrial personal property exempt from 24 education mills
- Provides a personal property tax cut of 46 percent on average
- Schools protected by dedicating a portion of the tax to the school aid fund
- No cuts to city, village, townships, and county revenues

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Effective Tax Rate on Personal Property

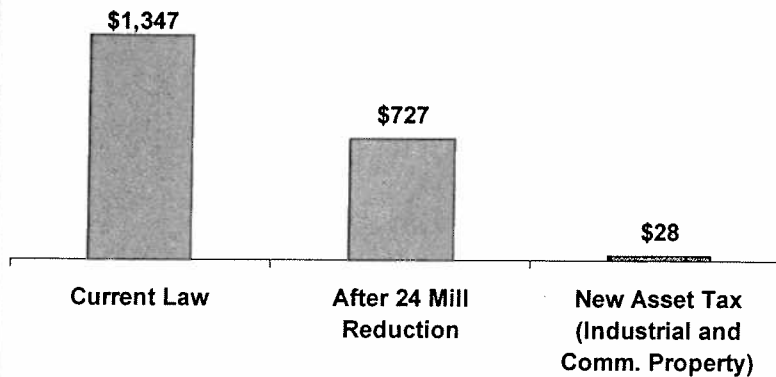


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Tax based on average personal property tax rate for commercial and industrial property. Assumes firm with 100 percent of sales in Michigan.

Taxes on Michigan Industrial and Commercial Personal Property

(millions of \$)



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Asset Tax Does Not Change with Location of New Investment

Assets in Michigan	Assets in Ohio	Total Assets	% MI Sales	Asset Tax Rate	Tax Due to Assets
Firm Prior to Investment					
\$1,000,000	\$1,000,000	\$2,000,000	10%	0.0125%	\$250
Firm After Investing in Ohio					
\$1,000,000	\$2,000,000	\$3,000,000	10%	0.0125%	\$375
Firm After Investing in Michigan					
\$2,000,000	\$1,000,000	\$3,000,000	10%	0.0125%	\$375

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Tax based on average personal property tax rate for commercial and industrial property.

Tax Cuts for Small Businesses

- Firms with less than \$350,000 in gross receipts are exempt from tax
- Eliminate cliff by phasing in tax for businesses with between \$350,000 and \$700,000 in gross receipts
- Firms with less than \$10 million in gross receipts can use an alternative calculation method where tax is equal to 1.8 percent of income
- Small business will also benefit from the personal property tax relief provisions

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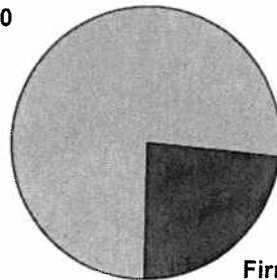
Phase-in Helps Small Business

Gross Receipts	Phase-In Percent	Standard Profit Rate	Asset/Sales Rate	Alternate Profit Rate
\$350,000	0%	0.000%	0.000%	0.000%
\$400,000	14%	0.268%	0.018%	0.257%
\$500,000	43%	0.804%	0.054%	0.772%
\$600,000	71%	1.339%	0.089%	1.285%
\$700,000	100%	1.875%	0.125%	1.800%

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3 Out of 4 Firms Pay Less

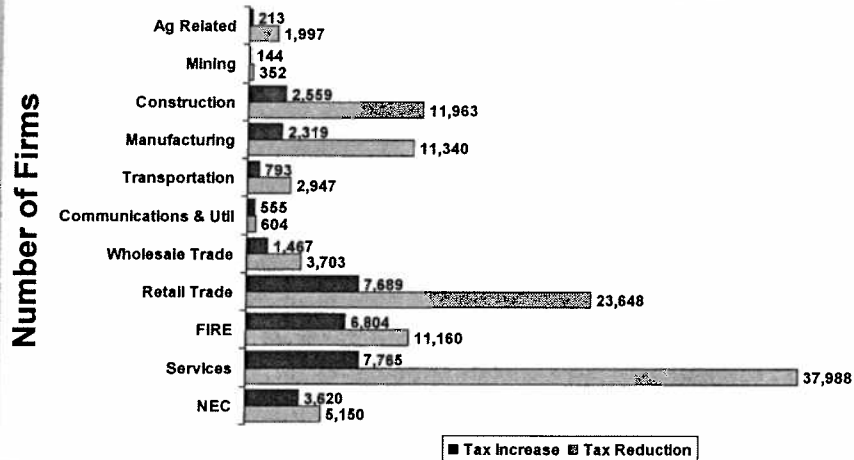
Firms with Cut
111,000



Firms with Increase
34,000

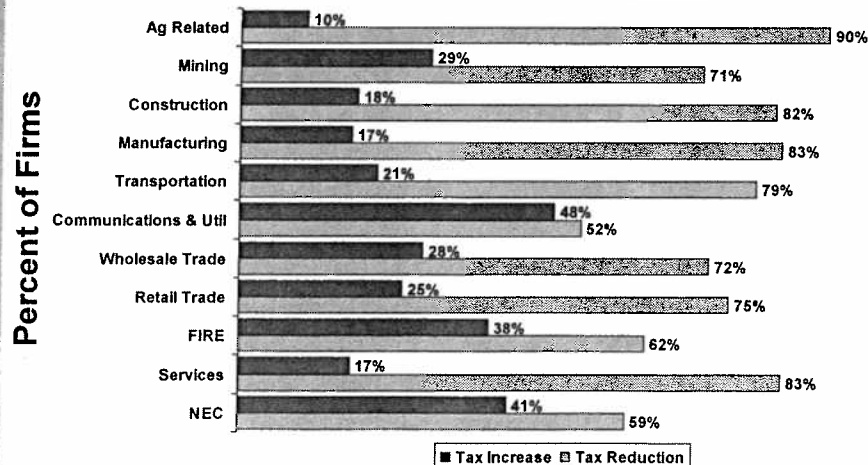
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Three Times as Many Firms See a Tax Reduction



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Most Firms in Each Sector See a Tax Cut



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Economic Development Tools

- Commitments made under current law retained under new tax
- Key economic development credits (MEGA, Brownfield, Ren Zone, Historic) preserved
- Credit provided for research innovation
- 100 percent sales factor removes incentive to locate out of state
- Cuts taxes for Michigan based firms by \$150 million
- Cuts taxes for Knowledge based industries by \$125 million

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Taxation of Insurers

- Tax rate will be 1.25%
- Nearly all states impose a tax on insurance premiums.
- The median tax rate for the 50 states is 2% compared to Michigan's current tax of 1.07 % before the application of several credits.
- Michigan's tax is the 3rd lowest of the 50 states.
- 35 states have a premiums tax of 2% or higher.

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Michigan Insurance Tax 3rd Lowest in U. S.

1.	Kentucky	\$3.08
2.	Louisiana	\$2.87
3.	Nevada	\$2.59
4.	Vermont	\$2.59

U. S. Median	\$1.49
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48. Michigan \$0.75

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Tax per \$1,000 of personal income, FY 2005 State Tax Collections, U. S. Bureau of the Census

After Increase Michigan 6th Lowest

1.	Kentucky	\$3.08
2.	Louisiana	\$2.87
3.	Nevada	\$2.59
4.	Vermont	\$2.59

U. S. Median	\$1.49
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45. Michigan (with MBT) \$1.02

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Tax per \$1,000 of personal income, FY 2005 State Tax Collections, U. S. Bureau of the Census

Balance Sheet for Michigan Business Tax

	Calendar Year	
	2008	2009
SBT Repeal	(1,915.5)	(1,972.9)
Michigan Business Tax	2,483.0	2,555.0
Minus Fin Org. adjustment	(25.0)	(35.7)
Minus Research Innovation Credit	(12.5)	(13.0)
Net Michigan Business Tax	2,445.5	2,506.3
1.25% Insurance Premiums Tax (new revenue)	90.0	92.7
24-Mill Property Tax Exemption for Industrial and Commercial Personal Property	(619.4)	(625.6)
	0.6	0.5

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Michigan Business Tax

- Encourages investment by **exempting commercial and industrial personal property** from the 24 mills levied for education
- **Encourages employment** by eliminating compensation from state's business tax base
- Removes incentives to create jobs outside Michigan with **100 percent sales factor**
- **Increases fairness** by taxing profits more, broadening the tax base, and imposing very low rate

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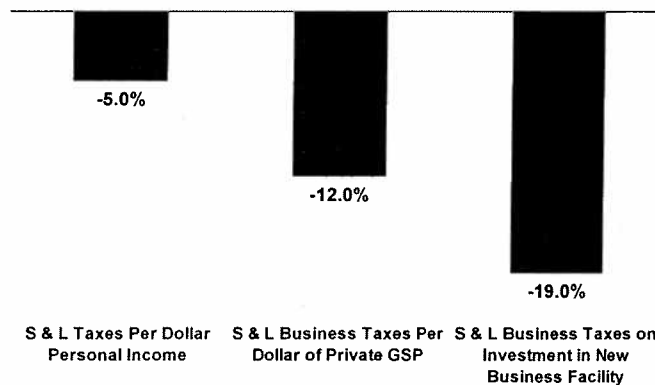
Michigan Business Burden Compares Well with Neighbors

<u>State</u>	<u>Business Tax as % of GSP</u>	<u>Rank</u>
Wyoming	9.6%	1
Illinois	5.3%	19
Minnesota	4.9%	23
U.S. Average	4.8%	
Ohio	4.7%	27
Indiana	4.5%	30
Wisconsin	4.4%	33
Michigan	4.3%	36
DE, NC, VA	3.7%	48

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Source: Council on State Taxation.

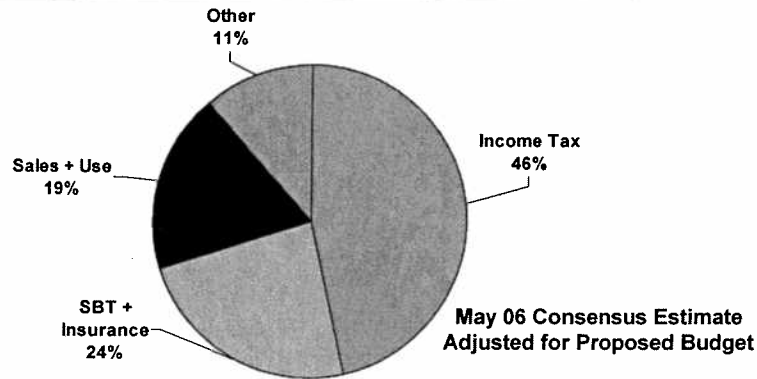
Upjohn Study Finds Michigan Taxes Below U.S. Average



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Source: Michigan Economic Competitiveness and Public Policy, Upjohn Institute 2006.

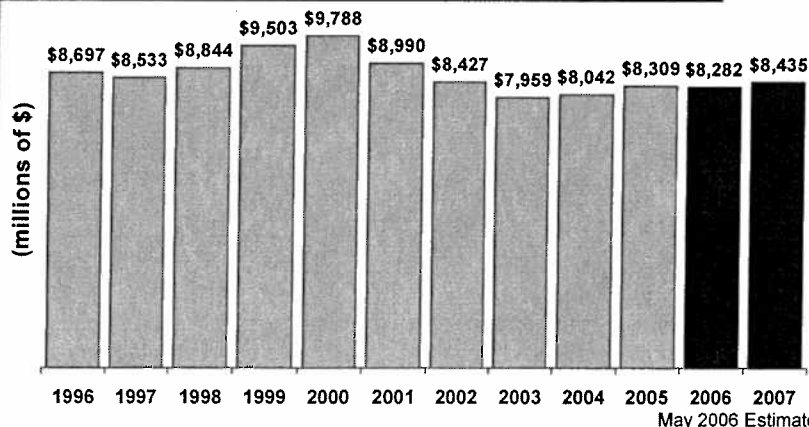
SBT Provides One Quarter of GF-GP Revenue



FY 2007 GF-GP Revenues Total \$9.2 billion

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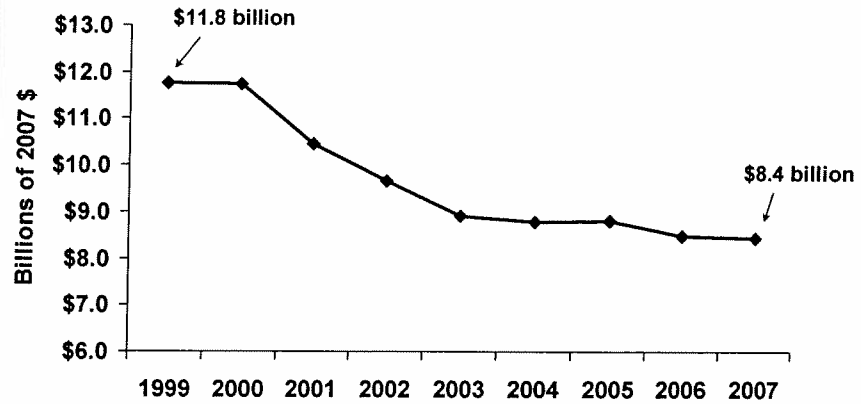
Nominal General Fund Net Revenue in 2007 Less Than in 1996



Note: Totals exclude transfers and savings from adjusting statutory revenue sharing payments to local governments.

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Inflation Adjusted GF-GP Revenue Down 28 Percent Since FY 1999



Totals Exclude Transfers and are adjusted to 2007 dollars using U.S. CPI-U.